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CENTRAL INTELLIGENCE AGENCY
National Foreign Assessment Center

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25 January 1980

MEMORANDUM FOR: Ms. Rhonda Bresnick
Office of East-West Trade
Department of the Treasury

SUBJECT : Soviet Gold Sales in 1979 and
Prospects for the 1980s.
Soviet Hard Currency Balance
of Payments for 1979

1. Per your request, I am enclosing a memorandum for Deputy Assistant Secretary Widman on Soviet gold sales in 1979 and prospects for the 1980s. I am also sending the projected USSR hard currency balance of payments for 1979 which you requested. Please note that these are very preliminary estimates since we lack complete data for the year. [redacted]

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2. If you have any questions, please call [redacted]

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Chief
Trade Branch
Office of Economic Research

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Attachment
As stated:

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SUBJECT: Soviet Gold Sales in 1979 and Prospects for
the 1980s

1. Soviet gold sales in January - November 1979 amounted to 200 tons worth \$2.0 billion.* These totals are a drop from 1978 when the USSR marketed 401 tons for \$2.5 billion. The steep decline in the tonnage sold presumably reflects Moscow's ability to meet foreign exchange needs from smaller sales and its desire to rebuild gold stocks. [REDACTED]

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2. Despite substantial grain imports in the second half of 1979, the USSR had smaller trade financing requirements last year than in 1978. Thanks principally to the steady rise in the prices of oil and gas -- the USSR's leading hard currency exports -- Moscow was able to cut its trade deficit from \$3.8 billion in 1978 to a projected \$2.5 billion in 1979. A smaller deficit coupled with skyrocketing gold prices enabled the USSR to meet its cash requirements on a sharply reduced volume of sales. [REDACTED]

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3. After the large gold sales of 1978 built Soviet cash reserves to a record \$6 billion, Moscow evidently wished to hold more of its assets in gold. [REDACTED]

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[REDACTED] the USSR was reducing sales in 1979 to rebuild stocks drawn down by the heavy marketings the year before. In fact we estimate that sales in 1976-78 cut Moscow's gold stock from 1,894 tons at yearend 1975 to 1,547 tons at yearend 1978. By the end of last year Soviet reserves had risen to an estimated 1,604 tons. [REDACTED]

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4. The stunning rise in the gold price presumably convinced the Soviets that holding more gold was preferable to converting gold into interest-bearing deposits of Western currencies. Also, reluctance to build cash reserves still higher probably stems from Soviet wariness of currency depreciation and, most recently, fear that Western currency holdings are ultimately subject to Western government action. [REDACTED]

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*

[REDACTED] a western press report claims that the USSR sold no gold in December. [REDACTED]

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Sales Outlook for 1980

5. Soviet gold sales may well be very small in 1980. The US embargo on grain sales coupled with still higher energy prices should substantially reduce the USSR's financial requirements. Furthermore, Moscow presumably had already earmarked some of its existing cash reserves for 1980 grain purchases and can now use these funds to pay for other imports. The recent deterioration in East-West relations and the US freeze on Iranian assets may in fact prompt Moscow to lower its deposits in Western banks and hold more gold. [REDACTED]

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6. In view of its own energy problems, the USSR could, of course, opt to sell less oil and more gold. However, given the thinness and volatility of the gold market, Moscow clearly faces limits in trading off oil sales for gold sales. [REDACTED]

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7. A cutback in Western credits to the USSR could force Moscow to sell gold to pay for priority imports, but sales in excess of 300 tons annually -- as occurred in 1976-78 -- would seem unlikely. Moscow could ride out a temporary credit embargo without resorting to heavy gold sales. The Soviets have yet to install a substantial amount of already imported Western machinery and equipment, which it typically finances with official credits and could throttle back new imports while digesting already acquired equipment. [REDACTED]

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8. A sharp reduction in commercial bank credit facilities for the USSR could prove more disruptive to Soviet finances in the short-run and spur higher gold sales. The impact of reduced commercial credits on the level of Soviet gold sales would be mitigated, however, by the following factors: (a) much of the USSR's past short-term commercial borrowing has been used to finance grain purchases; (b) the Soviets may draw down their cash reserves in Western banks; and (c) the USSR can count on greater revenues from oil and gas exports. [REDACTED]

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Sales Prospects After 1980

9. The Soviet Union has clearly planned on a continued role for gold sales in its hard currency trade

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and payments for the 1980s. The Soviets are expanding gold production capacity and, depending upon their success in bringing new facilities on stream, annual Soviet gold production could rise from 305 tons in 1979 to between 340 tons and 390 tons by 1985. Trends in the USSR's balance of payments reveal the importance of increasing gold sales revenues:

- domestic economic problems and development goals will require growing imports of Western capital goods, steel, chemical, and agricultural products;
- the USSR faces the prospect of declining oil export earnings and by 1985 hard currency outlays for oil imports;
- earnings from other exports will not increase sufficiently to offset the loss of oil revenues;
- Moscow cannot count on adequate credits to finance fully its deficits -- particularly as oil revenues decline -- and in any event greater borrowing carries the cost of higher debt service payments. [REDACTED]

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10. Prospects for Soviet gold sales in the 1980s could be altered substantially if Western economic denial measures move the Kremlin to reassess the role of trade with the West. Effective trade sanctions would naturally reduce Moscow's needs for hard currency. Without adjustments in the level of Soviet imports, credit sanctions would heighten Moscow's need for large gold earnings. But given its reticence to draw down gold stocks, the USSR would likely attempt to cut back imports before selling out of its gold reserves for an extended period. [REDACTED]

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CONFIDENTIALUSSR: Hard Currency Balance of Payments for 1979¹

Current Account Balance	-0.3 ²
Trade account balance	-2.5
Sales of gold	2.0
Military sales	NA ²
Net income from services	0.4
Net tourism	0.4
Net transportation	1.0
Net investment income	-1.0
Transfers	-0.2
Capital Account Balance	-0.5
Commercial borrowing	-1.6
Commercial assets	0.0
Government-backed borrowing	+1.1
Net Errors and Omissions	0.8
<u>Debt</u>	
Commercial Liabilities	8.7
Government-backed Liabilities	8.0
Gross debt	16.7
Commercial Assets	-6.0
Net Debt	10.7

¹ This is a very preliminary estimate based upon incomplete 1979 data on Soviet merchandise trade, gold sales, transportation earnings, commercial and official borrowing.

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² The USSR earns substantial hard currency from sales of arms. We cannot provide a total for 1979 because our estimates are undergoing substantial revision. Soviet sales in 1979, at a minium, put the USSR's current account well into surplus.

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